

AR37

Prairie Oil Royalties

COMPANY, LTD.



ANNUAL REPORT

1976

Directors:

Donald D. Barkwell Calgary, Alberta
Vice-President, Natural Resources
Norcen Energy Resources Limited

Edward A. Galvin Calgary, Alberta
Vice-Chairman of the Board
Norcen Energy Resources Limited

Wilfrid A. Loucks Calgary, Alberta
President
Coleman Collieries Limited

Frederick A. McKinnon Calgary, Alberta
Senior Vice-President
BP Canada Limited

Clifford A. Rae Calgary, Alberta
Barrister & Solicitor
Macleod Dixon,
Barristers & Solicitors

David M. Tyerman, Q.C. Regina, Saskatchewan
Barrister & Solicitor
MacPherson, Leslie & Tyerman
Barristers & Solicitors

Officers:

Donald D. Barkwell *President*
Vice-President, Natural Resources
Norcen Energy Resources Limited

Richard S. Buckland *Vice-President, Exploration*
General Manager, Canadian Exploration
Norcen Energy Resources Limited

Arthur L. Wood *Vice-President, Production*
General Manager, Oil and Gas production
Norcen Energy Resources Limited

David M. Tyerman, Q.C. *Secretary*
Barrister & Solicitor
MacPherson, Leslie & Tyerman
Barrister & Solicitors

A. Kenneth Davies *Treasurer*
Treasurer
Norcen Energy Resources Limited

William T. Kilbourne *Assistant Secretary*
Vice-President, Legal and Secretary
Norcen Energy Resources Limited

Russell G. Rennie *Assistant Secretary*
Assistant Secretary
Norcen Energy Resources Limited

THE ANNUAL GENERAL MEETING OF the Company will be held on Friday, April 29, 1977 at 9:00 o'clock in the forenoon, Mountain Daylight Time, in the Board Room of Norcen Energy Resources Limited, 32nd Floor, 715 - 5th Avenue S.W., Calgary, Alberta, Canada T2P 2X7.

Executive Office:

715 - 5th Avenue S.W., Calgary, Alberta T2P 2X7

Registered Office:

2161 Scarth Street, Regina, Saskatchewan S4P 2V4

Auditors:

Thorne Riddell & Co., Calgary, Alberta

Registrars & Transfer Agents:

Canada Permanent Trust Company,
Regina, Saskatchewan, and Toronto, Ontario

Morgan Guaranty Trust Company of New York,
New York, N.Y.

Stock Exchange Listings:

Toronto Stock Exchange, Toronto, Ontario
American Stock Exchange, New York, N.Y.

Directors' Report to the Shareholders

DESCRIPTION OF BUSINESS

Prairie Oil Royalties Company, Ltd. produces and sells crude oil, gas liquids and natural gas in Western Canada and carries out oil and gas exploration and development in Western Canada and the Canadian Arctic.

FINANCIAL

Revenue, cash flow and earnings for 1976 were substantially higher than 1975. Revenue totalled \$2,496,000, an increase of \$762,000, resulting primarily from increases in oil and natural gas prices and higher interest income. Cash flow was \$2,013,000 or \$1.03 per share, compared to \$1,469,000 or 75¢ per share in 1975. Net earnings before extraordinary item were \$1,246,000 or 63¢ per share, compared to \$805,000 or 41¢ per share in 1975. Net earnings, after including the gain on the sale of the Company's 333,531 shares of British Columbia Oil Lands Ltd. were \$5,540,000 or \$2.82 per share.

These shares were sold to BP Oil & Gas Investments Ltd. on September 1, 1976, at a price of \$20.00 per share. The gain on this sale, after provision for income taxes, was \$4,294,000 or \$2.19 per share and this has placed the Company in a strong working capital position. Although the proceeds from the sale are being held in short-term investments, resulting in higher interest income, management is investigating further investment alternatives relating to oil and gas exploration or acquisition.

PRODUCTION

Average daily production rates for 1976 before deducting royalties were 507 barrels of oil and gas liquids and 5,295 Mcf of gas, compared to 450 barrels and 6,676 Mcf in 1975. The increase in oil and gas liquids production reflects increased production levels in Saskatchewan where the Company has substantial royalty interests. The decline in natural gas production is due largely to normal production declines in the Big Bend and Acadia areas.

The wellhead price for Western Canadian crude increased by \$1.05 per barrel on July

1, 1976 to an average of \$9.05 per barrel. As a result, the average price received for the Company's production in 1976 was \$7.86 per barrel, an increase of 76¢ per barrel over the 1975 average price. A substantial increase in the price of natural gas during 1976 raised the average price to \$1.01 per Mcf from an average of 56¢ per Mcf in 1975. Crude oil and natural gas prices were increased again, effective January 1, 1977; crude oil by 70¢ per barrel and natural gas by 7¢ per Mcf.

The Company has agreed to participate in the construction of gathering, compression and processing facilities designed to increase gas production from wells in the general Big Bend area of central Alberta. The initial phase of this project comprises compression facilities to increase production of sweet gas and will go on stream in April, 1977. The second phase, involving construction of sour gas processing facilities, is expected to be on stream by August, 1977. It is estimated that the completed facilities will increase the Company's share of gas production from these properties to an average of 4300 Mcf per day for the year 1977 compared to 2400 Mcf per day in 1976.

EXPLORATION AND DEVELOPMENT

Drilling

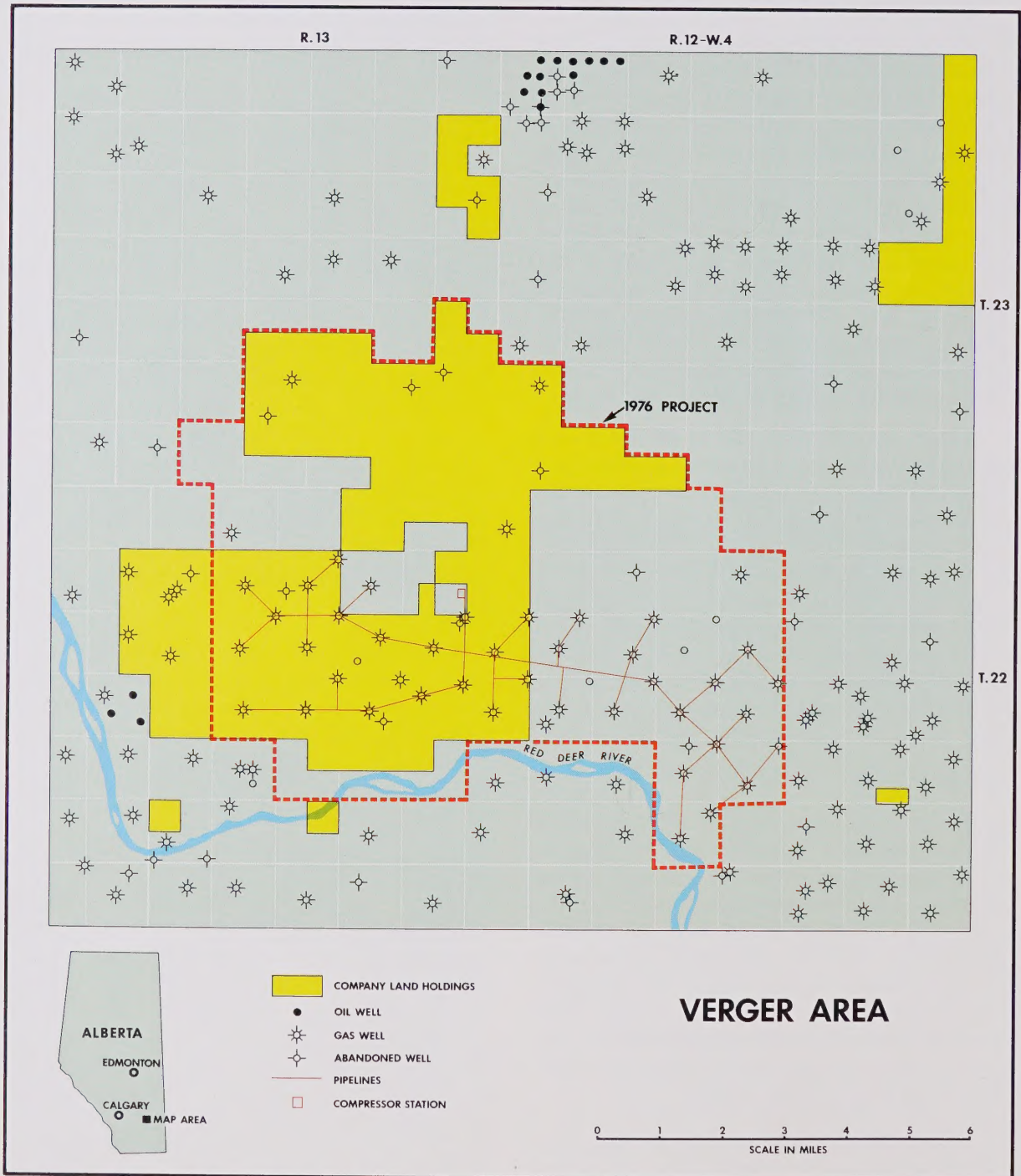
The Company's 1976 drilling activity showed a substantial increase over 1975. During the year the Company participated in the drilling of 52 (11.12 net) wells which resulted in 4 oil (.51 net) wells and 27 gas (6.18 net) wells. This activity is summarized in the following chart.

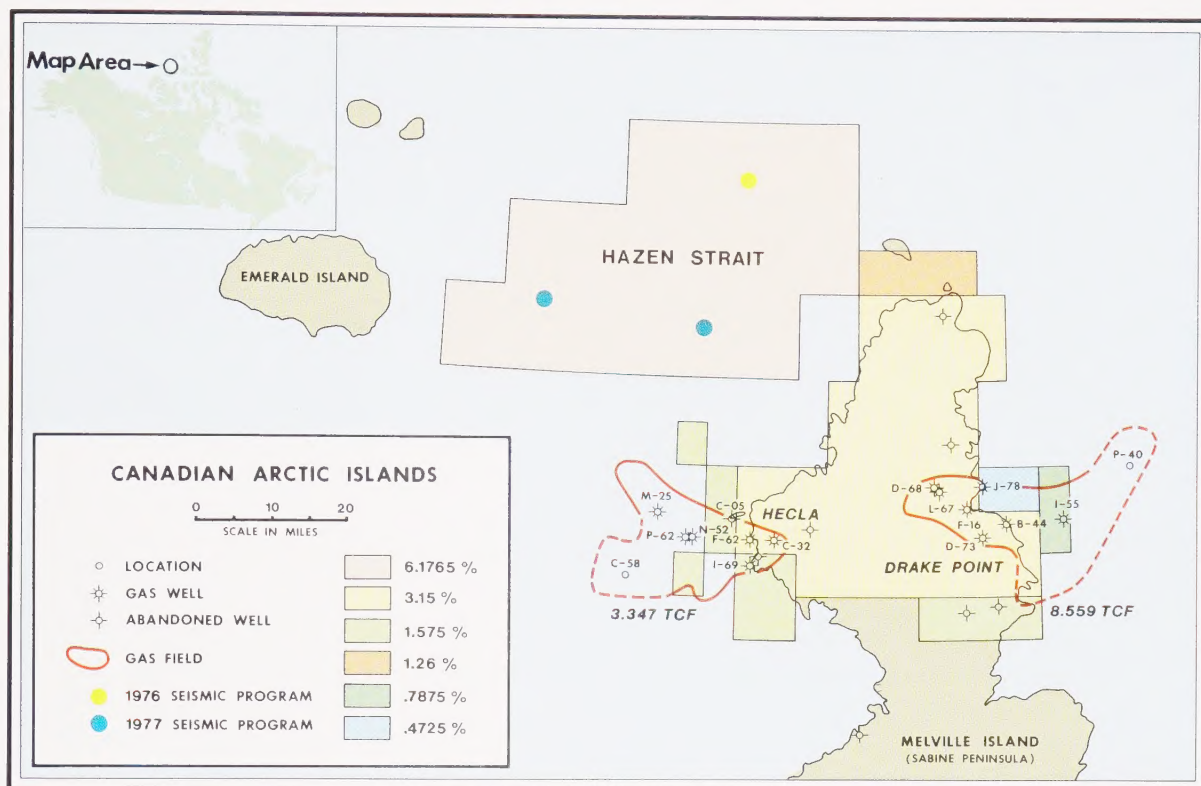
Wells Drilled	1976		1975	
	Gross	Net	Gross	Net
Exploratory				
Oil	1	.04	—	—
Gas	5	1.06	8	1.5
Dry	17	3.38	7	1.2
	<u>23</u>	<u>4.48</u>	<u>15</u>	<u>2.7</u>
Development				
Oil	3	.47	1	.1
Gas	22	5.12	4	1.1
Dry	4	1.05	1	.3
	<u>29</u>	<u>6.64</u>	<u>6</u>	<u>1.5</u>

Alberta

One of the main areas of exploration and development activity for the Company was in the Big Bend area north of Edmonton. There the Company participated in a total of 15 (5.41 net) wells resulting in 7 (2.6 net) gas wells and 8 (2.81 net) dry holes.

In southeastern Alberta, the Company participated in an extensive shallow gas development in the Verger field (see accompanying map). By year-end, 19 wells had been drilled and facilities constructed to gather and compress the gas. The project commenced operation in February, 1977 and the Company's share of production is estimated at 1,800 Mcf per day.





Arctic Islands

During the year under review, the Company participated in the drilling of Panarctic Tenn et al W Hecla C-05 and, in so doing, earned an additional 1.575% interest in 30,148 acres adjacent to the Hecla field. Although the well was unproductive, a relatively thick section of Borden Island sandstone was encountered, confirming the thickening of the sand in a northerly direction and increasing the reserves in this portion of the Hecla structure.

At Hazen Strait offshore, north of the

Hecla area, a 65 mile detailed seismic program was conducted during 1976 in a portion of a large acreage block (931,364 acres) in which the Company has a 6.1765% interest. An ice movement study is presently being conducted in this area to aid in the planning of offshore drilling. Also on the Hazen Strait acreage the Company is currently participating in the shooting of an additional 200 miles of seismic to further evaluate other portions of the acreage where reconnaissance seismic was conducted previously.

OIL AND GAS LANDHOLDINGS

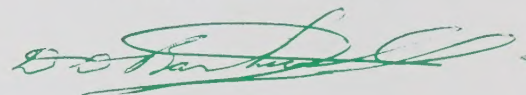
At December 31, 1976, the Company owned interests in 3,543,094 gross (363,738 net) acres compared to 3,518,540 gross

(365,288 net) acres at the end of the prior year. These landholdings are shown in detail in the following summary.

Area	Leases		Reservations, Permits and Licences		Total	
	Gross Acres	Net Acres	Gross Acres	Net Acres	Gross Acres	Net Acres
Arctic Islands	102,493	3,228	2,029,464	81,935	2,131,957	85,163
Banks Island NWT	—	—	402,593	12,680	402,593	12,680
Alberta	490,691	144,142	333,436	54,817	824,127	198,959
British Columbia	1,038	682	—	—	1,038	682
Manitoba	72,642	20,928	—	—	72,642	20,928
Saskatchewan.....	63,857	35,950	46,880	9,376	110,737	45,326
	<u>730,721</u>	<u>204,930</u>	<u>2,812,373</u>	<u>158,808</u>	<u>3,543,094</u>	<u>363,738</u>

In addition to the above, royalty interests are held in 288,541 acres and net carried interests in 1,920 acres.

On Behalf of the Board



D. D. Barkwell
President

Calgary, Alberta.
April 4, 1977.

CONSOLIDATED STATEMENT OF EARNINGS

years ended December 31, 1976 and 1975

	1976	1975
REVENUE		
Oil and gas sales	\$ 1,362,415	\$ 1,105,477
Royalties	687,910	476,764
Interest	446,262	151,506
	<u>2,496,587</u>	<u>1,733,747</u>
EXPENSES		
Production	201,576	162,476
General and administrative	134,759	108,354
Depletion	293,841	316,000
Depreciation	38,970	22,786
	<u>669,146</u>	<u>609,616</u>
Earnings before income taxes and extraordinary item	<u>1,827,441</u>	<u>1,124,131</u>
INCOME TAXES (note 1)		
Current (recovery)	147,489	(6,000)
Deferred	433,800	325,000
	<u>581,289</u>	<u>319,000</u>
Earnings before extraordinary item	<u>1,246,152</u>	<u>805,131</u>
EXTRAORDINARY ITEM		
Gain on sale of investment in British Columbia Oil Lands Ltd. (net of applicable income taxes of \$368,000)	<u>4,293,502</u>	<u>—</u>
NET EARNINGS	<u>\$ 5,539,654</u>	<u>\$ 805,131</u>
PER SHARE		
Earnings before extraordinary item	\$0.63	\$.41
Extraordinary item	2.19	—
Net earnings	<u>\$2.82</u>	<u>\$.41</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

years ended December 31, 1976 and 1975

	1976	1975
BALANCE AT BEGINNING OF YEAR	\$ 5,506,653	\$ 4,701,522
Net earnings	<u>5,539,654</u>	<u>805,131</u>
BALANCE AT END OF YEAR	<u>\$11,046,307</u>	<u>\$ 5,506,653</u>

CONSOLIDATED BALANCE SHEET

as at December 31, 1976 and 1975

Assets

CURRENT ASSETS

	<u>1976</u>	<u>1975</u>
Cash and short-term deposits	\$ 9,523,428	\$ 2,236,357
Accounts receivable	620,400	343,057
Income taxes recoverable	—	50,000
Drilling and other deposits	<u>47,193</u>	<u>77,489</u>
	<u>10,191,021</u>	<u>2,706,903</u>

INVESTMENT IN BRITISH COLUMBIA

OIL LANDS LTD., at cost	<u>—</u>	<u>2,009,117</u>
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PROPERTY, PLANT AND EQUIPMENT, at cost

(notes 1 and 2)	10,519,790	8,760,649
Accumulated depletion and depreciation	<u>3,160,948</u>	<u>2,828,136</u>
	<u>7,358,842</u>	<u>5,932,513</u>
	<u>\$17,549,863</u>	<u>\$10,648,533</u>

Liabilities

CURRENT LIABILITIES

Accounts payable	\$ 799,592	\$ 381,030
Income taxes	<u>509,314</u>	<u>—</u>
	<u>1,308,906</u>	<u>381,030</u>

DEFERRED INCOME TAXES (note 1)	<u>2,658,800</u>	<u>2,225,000</u>
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Shareholders' Equity

CAPITAL STOCK

Authorized

2,500,000 shares of \$1 par value

Issued

1,961,520 shares	1,961,520	1,961,520
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CONTRIBUTED SURPLUS	574,330	574,330
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RETAINED EARNINGS (note 3)	<u>11,046,307</u>	<u>5,506,653</u>
	<u>13,582,157</u>	<u>8,042,503</u>

Approved by the Board:

D. D. Barkwell, Director

W. A. Loucks, Director

<u>\$17,549,863</u>	<u>\$10,648,533</u>
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CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

years ended December 31, 1976 and 1975

SOURCE OF FUNDS

	1976	1975
Operations		
Earnings before extraordinary item	\$ 1,246,152	\$ 805,131
Charges not requiring working capital	766,611	663,785
Funds generated from operations	2,012,763	1,468,916
Proceeds from sale of investment in		
British Columbia Oil Lands Ltd.	6,302,620	—
	8,315,383	1,468,916

APPLICATION OF FUNDS

Property, plant and equipment	1,759,141	1,033,396
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INCREASE IN WORKING CAPITAL	\$ 6,556,242	\$ 435,520
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SUMMARY OF CHANGES IN WORKING CAPITAL

Increase (decrease) in current assets		
Cash and short-term deposits	\$ 7,287,071	\$ 546,105
Accounts receivable	277,343	50,078
Income taxes recoverable	(50,000)	6,000
Drilling and other deposits	(30,296)	25,920
	7,484,118	628,103
Increase in current liabilities		
Accounts payable	418,562	192,583
Income taxes	509,314	—
	927,876	192,583
Increase in working capital	\$ 6,556,242	\$ 435,520

Auditors' Report

TO THE SHAREHOLDERS OF
PRAIRIE OIL ROYALTIES COMPANY, LTD.

We have examined the consolidated balance sheet of Prairie Oil Royalties Company, Ltd. as at December 31, 1976 and 1975 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and 1975 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Calgary, Alberta
February 4, 1977

THORNE RIDDELL & CO.
Chartered Accountants

Notes to 1976 and 1975 Consolidated Financial Statements

NOTE 1 ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the company and its inactive wholly-owned subsidiary, Prairie Oil Exploration Ltd.

Depletion

The companies follow the practice of capitalizing both productive and non-productive costs related to the exploration for and the development of oil and gas reserves, and of depleting such costs on a composite unit of production method based on total estimated recoverable reserves.

Depreciation

Depreciation of plant and equipment is being provided at rates which will amortize original costs over the estimated useful lives of the respective assets.

Income Taxes

The companies follow the tax allocation method of accounting under which the income tax provision is based on the earnings reported in their accounts. Under this method the companies provide for deferred income taxes to the extent that income taxes otherwise payable are eliminated by claiming exploration and development costs and capital cost allowances in excess of the related depletion and depreciation provisions reflected in their accounts.

NOTE 2 PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Depletion and Depreciation	Net
December 31, 1976			
Oil and gas properties	\$ 9,229,062	\$2,613,369	\$6,615,693
Oil and gas production equipment	1,290,728	547,579	743,149
	<u>\$10,519,790</u>	<u>\$3,160,948</u>	<u>\$7,358,842</u>
December 31, 1975			
Oil and gas properties	\$ 7,946,627	\$2,319,528	\$5,627,099
Oil and gas production equipment	814,022	508,608	305,414
	<u>\$ 8,760,649</u>	<u>\$2,828,136</u>	<u>\$5,932,513</u>

NOTE 3 DIVIDEND RESTRICTION

The company is subject to the Anti-Inflation Act which provides, as from October 14, 1975, for the restraint of dividends in Canada. Under the legislation, the company is restricted in the payment of dividends during the twelve month period ending October 13, 1977 to a maximum amount of \$201,283 based on its 1975 earnings.

NOTE 4 DIRECTORS' FEES

1976 general and administrative expenses include directors' fees of \$7,400.

PRAIRIE OIL ROYALTIES COMPANY, LTD.

COMPARATIVE SUMMARY

FOR THE YEARS ENDED December 31

	1976	1975	1974	1973	1972
Revenue (\$000)					
Oil Sales	\$ 312	\$ 253	\$ 194	\$ 173	\$ 139
Gas Sales	1,050	852	415	349	289
Royalties	688	477	665	654	552
Interest & Other	446	152	152	84	52
	<u>2,496</u>	<u>1,734</u>	<u>1,426</u>	<u>1,260</u>	<u>1,032</u>
Expenses (\$000)					
Production	\$ 201	\$ 163	\$ 160	\$ 144	\$ 142
General and administrative	135	108	97	51	49
Depletion	294	316	354	284	246
Depreciation	39	23	50	63	57
	<u>669</u>	<u>610</u>	<u>661</u>	<u>542</u>	<u>494</u>
Earnings before Income Taxes (\$000)	\$1,827	\$1,124	\$ 765	\$ 718	\$ 538
Income Taxes (\$000) (note 1)					
Current	147	(6)	(44)	—	—
Deferred	434	325	295	286	198
	<u>581</u>	<u>319</u>	<u>251</u>	<u>286</u>	<u>198</u>
Earnings before extraordinary item	1,246	805	514	432	340
Extraordinary item	4,294	—	—	—	—
*Net Earnings (\$000)	<u>\$5,540</u>	<u>\$ 805</u>	<u>\$ 514</u>	<u>\$ 432</u>	<u>\$ 340</u>
Net Earnings Per Share					
Before extraordinary item	63¢	41¢	26¢	22¢	17¢
After extraordinary item	\$2.82	41¢	26¢	22¢	17¢
Cash Flow before extraordinary item					
(\$000)	\$2,013	\$1,469	\$1,213	\$1,065	\$ 841
Per Share	\$ 1.03	75¢	62¢	54¢	43¢
Expenditures (\$000)					
Exploration and Property					
Acquisitions	\$1,282	\$ 897	\$1,095	\$ 570	\$ 630
Plant and Equipment					
(Net after sales)	\$ 477	\$ 136	\$ 48	\$ (39)	\$ 101
Shares Issued and Outstanding	1,961,520	1,961,520	1,961,520	1,961,520	1,961,520
Market Price Ranges of Shares (\$)	High Low	High Low	High Low	High Low	High Low
American Stock Exchange 1st Quarter	6 3 ¹ / ₂	4 ³ / ₄ 2 ³ / ₈	11 ³ / ₄ 6 ³ / ₄	13 ³ / ₈ 9	15 ³ / ₄ 10 ⁵ / ₈
2nd Quarter	8 ¹ / ₄ 4 ³ / ₄	5 ¹ / ₂ 3 ¹ / ₈	7 ¹ / ₈ 4 ⁵ / ₈	9 ³ / ₈ 6 ¹ / ₈	15 ¹ / ₄ 11 ⁵ / ₈
3rd Quarter	7 ³ / ₄ 6 ¹ / ₈	4 ⁷ / ₈ 3 ¹ / ₄	5 ³ / ₈ 3	8 ³ / ₄ 6 ¹ / ₄	13 ¹ / ₂ 11 ³ / ₈
4th Quarter	11 ¹ / ₈ 6 ³ / ₈	4 3	5 ¹ / ₈ 2 ¹ / ₄	11 ³ / ₄ 5 ³ / ₈	13 ⁵ / ₈ 11

*Effective January 1, 1974 the Company adopted the deferred income tax method of accounting and prior years' earnings have been restated.

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PRAIRIE OIL ROYALTIES
COMPANY, LTD.

INTERIM REPORT

June 30, 1976

715 - 5th Avenue S.W.
Calgary, Alberta T2P 2X7

Production

Natural gas production averaged 5,823 MCF per day compared to 7,134 MCF per day in the first six months of 1975, while crude oil and gas liquids production averaged 486 barrels per day, an increase of 143 barrels per day. The Company received an average price of 97 cents per MCF for gas compared to 48 cents per MCF in the prior year. The price received for crude oil and gas liquids production averaged \$7.29 per barrel, up from \$6.19 per barrel in the same period of last year.

Corporate

An offer to purchase all of the outstanding shares of British Columbia Oil Lands Ltd., at a price of \$20 per share, was received from BP Oil & Gas Investments Limited and the Company has tendered its 333,531 shares of British Columbia Oil Lands Ltd. in acceptance of the offer. The offer is conditional upon acceptance on or before August 24, 1976, by the holders of 90% of the shares not now owned by BP Oil & Gas Investments Limited.

On Behalf of the Board,



D. D. Barkwell,
President

Calgary, Alberta
August 13, 1976

Financial

During the first six months of 1976, revenue, cash flow and net earnings all were substantially higher than in the same period of the prior year. Revenue totalled \$1,105,000, an increase of \$377,000, resulting primarily from increased oil production and higher oil and natural gas prices. Cash flow was \$963,000 or 49 cents per share compared to \$583,000 or 30 cents per share, while net earnings of \$592,000, or 30 cents per share, were almost double net earnings in the first half of 1975.

Drilling

The Company participated in the drilling of 23 wells (5.25 net) resulting in 8 gas wells (1.81 net) and 15 dry wells (3.44 net). All of the gas completions were in Alberta, 5 in the Big Bend area, 2 in the Verger area and 1 at Minnehik-Buck Lake. The Verger wells are part of an evaluation program preceding a multi-company co-operative shallow gas development covering 35,000 acres.

In the Arctic, the Company participated in a step-out well drilled offshore Melville Island 3 1/2 miles from the gas discovery in the West Hecla field. Although the well was abandoned, the geological data obtained confirms a thickening of the gas sand in a northerly direction and indicates that the gas reserves in this portion of the West Hecla field could be somewhat higher than originally estimated. The Company earned a 1.575% interest in 31,148 acres in and adjacent to the West Hecla field by participating in the well.

CONSOLIDATED STATEMENT OF EARNINGS

For the Six Months Ended June 30
(unaudited)

	1976	1975
SALES AND OTHER REVENUE..	\$1,105,000	\$728,000
COSTS AND EXPENSES		
Field operating expenses	96,000	83,000
General and Administrative expenses	65,000	64,000
Depletion.....	145,000	139,000
Depreciation.....	19,000	11,000
	<u>325,000</u>	<u>297,000</u>
EARNINGS BEFORE INCOME TAXES.....	780,000	431,000
Income Taxes — current and deferred.....	188,000	120,000
NET EARNINGS.....	<u>\$ 592,000</u>	<u>\$311,000</u>
EARNINGS PER SHARE		
Cash Earnings.....	49c	30c
Net Earnings.....	30c	16c

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Six Months Ended June 30
(unaudited)

	1976	1975
SOURCE OF WORKING CAPITAL		
Operations		
Net earnings	\$ 592,000	\$311,000
Charges not requiring working capital	<u>371,000</u>	<u>272,000</u>
Working capital generated from operations	963,000	583,000
APPLICATION OF WORKING CAPITAL		
Property, plant & equipment...	<u>728,000</u>	<u>433,000</u>
INCREASE IN WORKING CAPITAL.....	<u>\$ 235,000</u>	<u>\$150,000</u>